

KENT INTERMEDIATE SCHOOL DISTRICT

GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

KENT INTERMEDIATE SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund and Major Special Revenue Funds	17
Statement of Net Assets – Fiduciary Funds	18
Notes to the Financial Statements	19-31
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	33
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Cooperative Education	34
Statement of Changes in Assets and Liabilities – Agency Fund	35



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 4, 2005

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **KENT INTERMEDIATE SCHOOL DISTRICT**, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Kent Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Kent Intermediate School District as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison of each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2005, on our consideration of the Kent Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kent Intermediate School District's basic financial statements. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the Kent Intermediate School District's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

To understand our financial statements, you must first know Kent Intermediate School District (Kent ISD) and its purpose.

Created by state legislation in 1962 to serve local schools and act as a liaison between them and the Michigan Department of Education, Kent ISD is one of 57 intermediate school districts across the state. It is known for its regional cooperation and the strength of its programs. Kent ISD is a shared community resource, providing an extensive network of supportive service that helps families and local schools successfully grow preschoolers into graduates and lifelong learners.

Kent ISD offers a wide range of services focused on learning. Kent ISD serves the schools and communities of its 20 traditional public school districts, along with non-public, home schools and charter schools. That means serving nearly 330 schools, 123,260 students and 10,000 educators and staff, with programs and services that would be too resource-intensive or costly to maintain at a district level.

From its highly advanced, career-oriented Kent Career Technical Center (KC/TC), to the hands-on outdoor Howard Christensen Nature Center (HCNC), and adaptive vocational education center-Kent Transition Center (KTC), Kent ISD is helping teach and inspire the young minds of the future throughout the Grand Rapids metropolitan area. As an educational advocate, Kent ISD helps make the needs of children and their schools known to community leaders, legislators, service agencies and media.

Our Educational Service Center (ESC) hosts 40,000 guests each year for training and professional meetings. Under REMC8 (serving the counties of Kent, Ionia and Montcalm) we maintain and distribute approximately 14,000 films for classrooms, and provide courier services. Our technology staff serves more than 7,000 teachers each year with equipment training and other services. We also register 1,540 substitute teachers for Kent County schools. Through research and development of effective curriculum, our Kent County Collaborative Core Curriculum (KC4) has been sold throughout the United States.

Our Kent Career/Technical Center (KC/TC) serves over 2,600 students in 25 technical programs, from over 70 public and private high schools in Kent County. KC/TC provides students with quality training in career and technical programs that include technical training, academic integration and alignment with post-secondary education. KC/TC also has satellite programs at Northview High School and at Byron Center High School for Regional Theatre Technology and at Gerald R. Ford International Airport for Aviation Mechanics.

Our Kent Transition Center (KTC) provides a wide variety of entry-level job skills, vocational training and work experience for 381 students who are academically challenged, at-risk, or who need hands-on learning. Approximately 50 area companies serve as KTC partners. The center was recently recognized as an *Exemplary School* for its work in adapted vocational training and job placement of students.

Our Howard Christensen Nature Center (HCNC) is a 134-acre nature preserve and learning center serving 18,000 students a year. The center offered several miles of nature trails and was open to the public. HCNC closed its doors in the spring of 2005, due to budget cuts.

Visit our web site at www.kentisd.org to see what sets us apart.

Reporting the District as a Whole - District-wide Financial Statements

One of the most important questions asked about Kent ISD is, “As a whole, what is the District’s financial condition as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities, which appear first in the District’s financial statements, report information on the District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and Statement of Activities report the governmental activities for the District, which encompass all of the District’s services, including instruction, supporting services, and community services. Property taxes, unrestricted state aid and state and federal grants finance most of these activities.

These two statements report the District’s net assets - the difference between assets and liabilities-in the Statement of Net Assets, as one way to measure the District’s financial health, or financial position. Over time, increases or decreases in the District’s net assets - as reported in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District’s operating results; whether the District had a profit or a loss at year end. However, unlike the private-sector, the District’s mission is to strengthen communities by providing leadership for learning, not to generate profits as commercial entities do. The District accomplishes its mission through innovative partnerships, technology, training, professional development and research. It is Kent ISD’s vision to “lead learning.”

Reporting the District’s Most Significant Funds - Fund Financial Statements

The District’s fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law or by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the District’s services are reported in governmental funds. The governmental funds of the District use the following accounting approach:

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement.

The District as Trustee - Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary for funds it holds for other groups. All of the District’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets as of June 30, 2005 and June 30, 2004, respectively:

TABLE 1

	Governmental Activities (in millions)	
	2005	2004
Assets		
Current and other assets	\$ 45.4	\$ 41.7
Capital assets	<u>34.8</u>	<u>34.0</u>
Total assets	80.2	75.7
Liabilities		
Current liabilities	24.9	14.7
Long-term liabilities	<u>.5</u>	<u>.7</u>
Total liabilities	25.4	15.4
Net Assets		
Invested in property and equipment –		
Net of related debt	34.5	33.7
Restricted	16.9	21.7
Unrestricted	<u>3.4</u>	<u>4.9</u>
Total net assets	<u>\$ 54.8</u>	<u>\$ 60.3</u>

The above analysis focuses on the net assets (Table 1). The District's net assets were \$54.8 million at June 30, 2005, and \$60.3 million at June 30, 2004, decreasing by \$5.5 million in 2005. This decrease is due mainly to a rollback in the vocational education levy of .2570, reducing our tax revenues by more than \$3.8 million, while expenses increased by nearly \$.5 million. Kent ISD also hired more than 500 special education staff, significantly increasing our administrative expenses. Capital assets in 2005 and 2004, net of related debt, totaling \$34.5 million and \$33.7 million respectively, is arrived at by taking the historical cost of the asset and subtracting the accumulated depreciation expense and any debt obligation arising from the assets' purchase. The district has no debt related to the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Restricted net assets decreased to \$16.9 million in 2005 from \$21.7 million in 2004. The remaining amount of net assets, \$3.4 million in 2005, and \$4.9 million in 2004 was unrestricted.

The \$3.4 million in unrestricted net assets for 2005 represents the *accumulated* results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example) we would have \$3.4 million left. The operating results of the District will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

TABLE 2

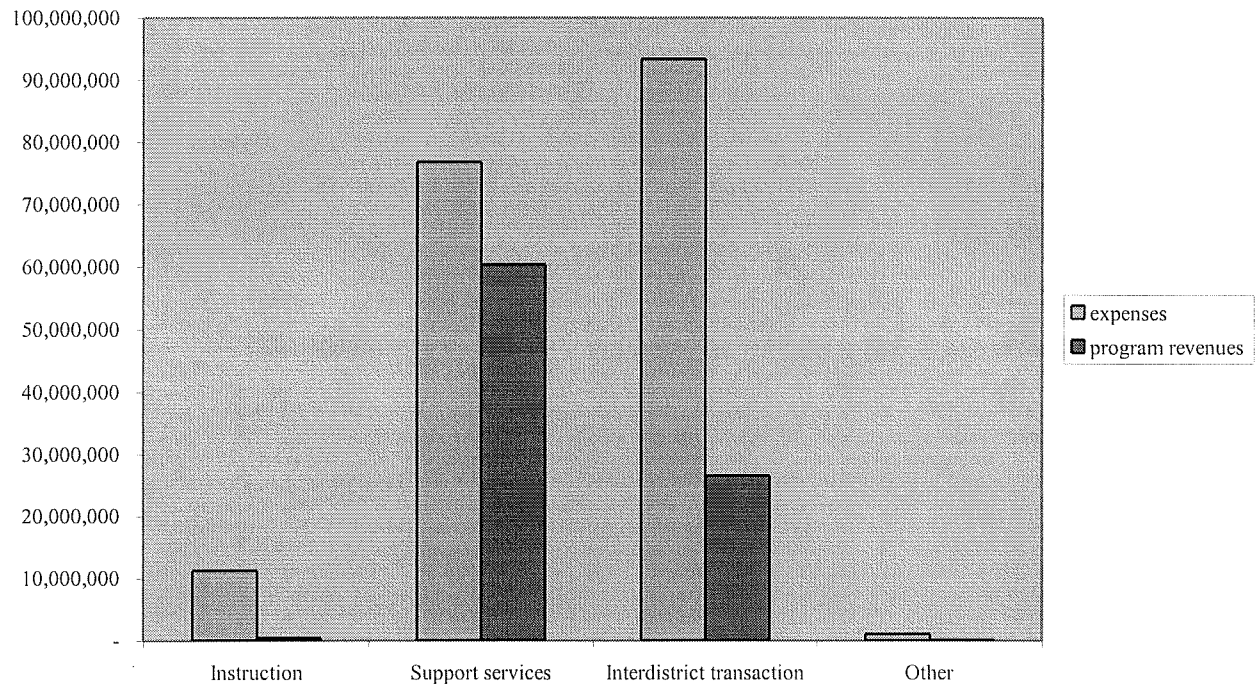
	Governmental Activities (in millions)	
	<u>2005</u>	<u>2004</u>
Revenue		
Program revenue:		
Charges for services	\$ 54.2	\$ 16.1
Federal grants and entitlements	25.5	22.5
State categoricals	7.4	4.2
Other	.4	2.4
General revenue:		
Property taxes	81.9	65.5
Unrestricted State Aid	2.8	3.0
Other	<u>4.9</u>	<u>1.7</u>
Total revenue	\$177.1	\$115.4
Expenses		
Function/Program Expenses		
Instruction	\$ 11.3	\$ 10.4
Support services	76.9	34.9
Community services	.3	.2
Interdistrict transfers	93.3	67.2
Other	<u>.8</u>	<u>.8</u>
Total expenses	182.6	113.5
Increase (Decrease) in Net Assets	<u>\$ (5.5)</u>	<u>\$ 1.9</u>

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$182.6 million. Certain activities were partially funded from those who benefited from the programs (\$54.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$33.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$81.9 million in taxes, \$2.8 million in state aid, and with our other revenues, like interest and general entitlements.

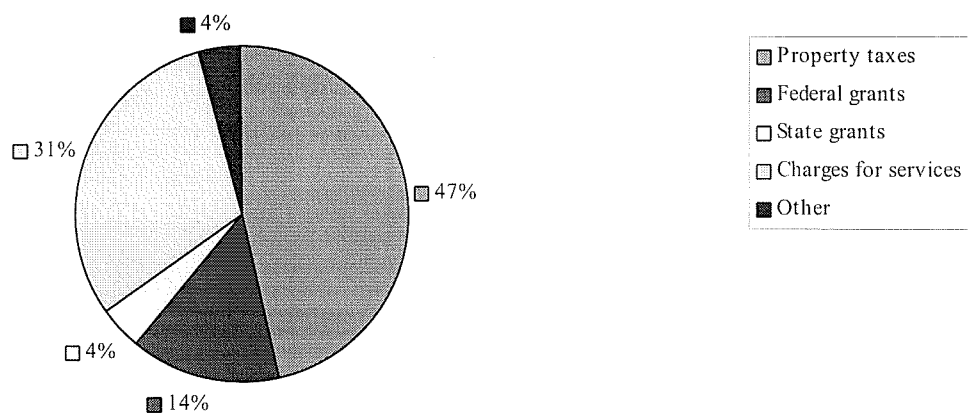
The District's revenue increased in 2005 by \$61.7 million dollars over 2004. The increase is partially due to additional property tax revenue (\$20.1 million) from an operating levy increase for special education. Charges for services rose by \$38.1 million, as the District was reimbursed by local school districts for the costs associated with employing special education itinerant staff, and special education transportation. The District's expenses increased in 2005 by \$69.1 million, mainly due to employing over 500 special education itinerant staff (\$35.8 million), and to the increased cost of Special Education Transportation. Both of these projects were taken over by Kent ISD for the benefit of local districts. Kent ISD passed through to the local school districts the additional revenue it received from the operating levy increase, accounting for an additional \$20 million in interdistrict transfers.

The District experienced a decrease in net assets of \$5.5 million for fiscal year 2005, meaning that expenses exceeded revenue by this amount. The prior year increase in net assets was \$1.9 million. Key reasons for the decrease in net assets were due to the rollback of the operating levy for vocational education, without a corresponding decrease in expenditures, as well as the rising costs of providing employee benefits.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



The District's Funds

As we noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

The District's overall fund balance declined slightly in 2005, at \$20.1 million, as compared to \$26.5 million in 2004.

General Fund fund balance is available to meet the costs related to District operating purposes. The current year decline to \$2.4 million from \$3.3 million was the result of decreasing revenues from state and federal sources of \$0.4 million, without a corresponding relative decrease in the services we offered, as well as a reallocation of expenses for our data warehouse project in the amount of nearly \$0.6 million.

Our Special Revenue Funds showed a net decrease of \$5.1 million dollars over the prior year. The main reason for this decline is that our vocational education levy was rolled back, decreasing revenues by \$3.8 million, while expenses in that same fund were up by \$0.5 million. The costs for administering our special education itinerant project further eroded the fund balance of our Special Revenue Funds.

The District does not have any debt obligations other than Durant debt obligations, which are funded by annual State appropriations, accordingly.

The combined Capital Projects Funds fund balance decreased by \$.4 million as the district completed construction of new canopy and sidewalk at Lincoln Center. The district is also completing construction on an additional exit to East Beltline.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires the budget be amended to insure expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as a basic financial statement).

There were slight revisions made to the 2004-2005 original budgets. Budgeted revenues were increased \$0.5 million over the original budget, due primarily to reimbursements from local districts for personnel costs incurred by Kent ISD on their behalf.

Budgeted expenditures and transfers out were also increased \$1.2 million over the original budget to account for obligations brought about by additional personnel costs incurred by Kent ISD on behalf of our local districts, as well as a refinement of projected expenses due to employee benefit increases.

Significant variances between the final budget amounts and actual were as follows:

Local Revenues, unfavorable variance of \$289,297, relating to less revenue coming from fees for the services we provide.

State and Federal Revenue, unfavorable variances of \$125,957 and \$195,609 respectively, relating to fewer grants from these sources.

Favorable variances in expenses are primarily due to a decrease in spending because of falling revenues. Those decreases affected the following expense categories by these amounts:

Instructional Staff \$669,392

Business Services \$117,186

Central Services \$ 219,650

Capital Outlay \$71,230

A favorable variance in incoming transfers is due to the District receiving more indirect revenue related to grants. Transfers out posted a favorable variance relating to our data warehouse project, as this allocated expense was less than expected.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the District had \$56.4 million invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions and deductions but before depreciation) of approximately \$2.2 million, or 4 percent, from last year.

	<u>2005</u>	<u>2004</u>
Land	\$ 474,740	\$ 477,295
Construction in progress	3,191,160	2,892,172
Buildings and Structures	43,353,646	41,796,259
Furniture and equipment	8,734,657	8,209,489
Vehicles	<u>664,262</u>	<u>828,850</u>
Total capital assets	<u>\$56,418,465</u>	<u>\$54,204,065</u>

Additions of \$5,106,658, net of prior year's construction in progress, included vocational education equipment, technology, building renovations and site improvements. No debt was issued for these additions.

At this time, there are no major capital projects planned for the 2005-2006 fiscal year. We anticipate capital additions on outstanding projects will be about \$0.6 million dollars. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this fiscal year, the District had \$325,343 in bonds outstanding, the same as in the prior year. The state has revised the Durant bond payment schedule, making 2006 the next payment date.

Other obligations include accrued compensated absences, and early retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Currently Known Facts, Decisions, or Conditions

The District is committed to providing its internal and external customers with the tools necessary to complete their tasks in a timely fashion for the benefit of the district's student population. To achieve this task, the District is in the process of designing a data warehouse, which will facilitate the compilation and exchange of information needed for reporting and analysis. This data warehouse has cost Kent ISD approximately \$3 million to date, and is expected to cost an additional \$0.3 million to complete.

The District has entered into an agreement with the Michigan Military Preservation Society and the Kent County Board of Aeronautics for a facility which was built on the grounds of the Gerald R. Ford International Airport. The agreement provides for Kent ISD to lease a portion of this new building for our Aviation Mechanics Program. This program is very popular with Kent ISD Vocational Education students and will give the District an opportunity to expand this program. The total cost of this lease will be almost \$1.3 million and covers a period of 17 years. There are 16 years left on this lease.

Our Board and administration consider many factors when setting the District's 2005/2006 fiscal year budget. One of those factors is the State of Michigan's financial downturn in recent years. The board must estimate how the State's budgetary problems will be passed along to Kent ISD in the form of decreased funding of grants and categoricals. The state aid act for 2005/2006 was not adopted until well after the start of the District's fiscal year.

Our Board must also consider the ever increasing cost of employee benefits. Estimating what those costs will be for the upcoming year is always a challenge. Kent ISD is now self-insured in some areas, and is hoping to achieve some cost savings as a result of this.

The 2005/2006 budget was adopted in June 2005.

In an effort to be good stewards of taxpayer dollars, the District is involved in several programs which allow the District to take advantage of reduced prices on some goods and services we purchase. Additionally, Kent ISD is one of the charter members of the Michigan School Energy Cooperative (MISEC). This is an energy cooperative of approximately 300 school districts who purchase natural gas and electricity through a bid process. Kent ISD alone saves approximately \$100,000 yearly on the purchase of these two utility commodities through MISEC. Kent Intermediate School District is committed to finding the most cost effective ways to make efficient use of the resources entrusted to us.

KENT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 5,669,847
Investments	21,017,612
Receivables	
Interest	19,702
Accounts	19,580
Due from other governmental units	15,619,803
Inventories	1,669,067
Prepaid expenses	1,314,608
Total current assets	<u>45,330,219</u>
Noncurrent assets	
Capital assets	
Land and construction in progress	3,665,900
Improvements, buildings and equipment	52,752,565
Less accumulated depreciation	<u>(21,585,946)</u>
Total noncurrent assets	<u>34,832,519</u>
Total assets	<u>80,162,738</u>
Liabilities	
Current liabilities	
Accounts payable	1,772,201
Accrued liabilities	
Salaries payable	4,840,301
Employee benefits	2,217,531
Interest payable	42,553
Due to other governmental units	13,971,044
Unearned revenue	1,908,033
Compensated absences payable within one year	36,311
Total current liabilities	<u>24,787,974</u>
Noncurrent liabilities	
Bonds payable in more than one year	325,343
Compensated absences/retirement incentive payable	209,800
Total noncurrent liabilities	<u>535,143</u>
Total liabilities	<u>25,323,117</u>
Net assets	
Invested in capital assets, net of related debt	34,507,176
Restricted for	
Special education	1,930,915
Vocational education	6,404,411
Capital projects	8,481,863
Debt service	
Nonexpendable-endowment	112,083
Expendable for scholarships - endowment	2,969
Unrestricted	<u>3,400,204</u>
Total net assets	<u>\$ 54,839,621</u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 11,250,250	\$ 378,210	\$ 7,530	\$ 50,925	\$ (10,813,585)
Supporting services	76,883,903	53,876,454	6,514,674	-	(16,492,775)
Community services	300,012	-	96,524	-	(203,488)
Interest on long-term debt	12,232	-	-	-	(12,232)
Interdistrict transactions	93,362,245	-	26,581,139	-	(66,781,106)
Unallocated depreciation	781,243	-	-	-	(781,243)
Total governmental activities	\$182,589,885	\$54,254,664	\$ 33,199,867	\$ 50,925	(95,084,429)
General revenues:					
Property taxes					81,938,564
State school aid					2,779,261
Payments received in lieu of taxes and other revenue					4,792,843
Unrestricted investment earnings					120,577
Total general revenues					89,631,245
Change in net assets					(5,453,184)
Net assets, beginning of year					60,292,805
Net assets, end of year					\$ 54,839,621

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

ASSETS	GENERAL FUND	SPECIAL REVENUE FUNDS		OTHER FUNDS	TOTAL
		SPECIAL EDUCATION	REGIONAL VOCATIONAL EDUCATION		
Cash and cash equivalents	\$ 1,192,887	\$ 1,414,554	\$ 1,187,768	\$ 1,874,638	\$ 5,669,847
Investments	1,446,277	9,488,132	3,673,445	6,409,758	21,017,612
Receivables					
Interest	1,824	-	12,340	5,538	19,702
Accounts	18,105	-	186	1,289	19,580
Due from other funds	116,116	-	982,770	47	1,098,933
Due from other governmental units	1,137,538	13,657,012	259,243	566,010	15,619,803
Inventories	55,368	-	1,613,699	-	1,669,067
Prepaid expenditures	-	-	114,608	1,200,000	1,314,608
TOTAL ASSETS	\$ 3,968,115	\$ 24,559,698	\$ 7,844,059	\$ 10,057,280	\$ 46,429,152
LIABILITIES					
Accounts payable	\$ 67,917	\$ 1,492,850	\$ 128,284	\$ 83,150	\$ 1,772,201
Accrued liabilities					
Salaries payable	211,870	3,672,415	951,267	4,749	4,840,301
Employee benefits	318,020	1,571,819	327,692	-	2,217,531
Due to other governmental units	30,127	13,822,211	21,414	97,292	13,971,044
Due to other funds	661,050	426,809	10,991	83	1,098,933
Deferred revenue	250,497	1,642,679	-	535,527	2,428,703
TOTAL LIABILITIES	1,539,481	22,628,783	1,439,648	720,801	26,328,713
FUND BALANCES					
Reserved					
Endowment	-	-	-	112,083	112,083
Inventories	55,368	-	1,613,699	-	1,669,067
Prepaid items	-	-	114,608	1,200,000	1,314,608
Capital projects	-	-	-	7,246,309	7,246,309
Unreserved					
Designated -Tax tribunals	32,207	935,619	355,004	35,554	1,358,384
Undesignated reported in special revenue funds	-	-	-	739,564	739,564
Undesignated reported in permanent funds	-	-	-	2,969	2,969
Undesignated	2,341,059	995,296	4,321,100	-	7,657,455
TOTAL FUND BALANCES	2,428,634	1,930,915	6,404,411	9,336,479	20,100,439
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,968,115	\$ 24,559,698	\$ 7,844,059	\$ 10,057,280	\$ 46,429,152

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

JUNE 30, 2005

Fund balances - total governmental funds	\$20,100,439
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Long term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the available criteria for revenue recognition occurs.

Add - deferred revenue on long-term receivables	520,670
---	---------

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	56,418,465
Deduct - accumulated depreciation	(21,585,946)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(325,343)
Deduct - accrued interest on bonds payable	(42,553)
Deduct - compensated absences and early retirement incentive payable	<u>(246,111)</u>

Net assets of governmental activities	<u><u>\$54,839,621</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS				
	GENERAL	SPECIAL	REGIONAL	OTHER	TOTAL
	FUND	EDUCATION	VOCATIONAL	FUNDS	GOVERNMENTAL
			EDUCATION		FUNDS
REVENUES					
Local sources	\$ 3,359,216	\$ 73,553,231	\$ 14,237,970	\$ 2,047,024	\$ 93,197,441
State sources	2,918,689	17,753,563	1,049,466	286,249	22,007,967
Federal sources	727,231	23,420,394	1,376,002	-	25,523,627
Interdistrict sources	620,630	35,858,265	-	270,239	36,749,134
TOTAL REVENUES	7,625,766	150,585,453	16,663,438	2,603,512	177,478,169
EXPENDITURES					
Current					
Instruction	35,546	-	10,092,496	-	10,128,042
Supporting services	7,904,985	56,265,288	10,290,573	-	74,460,846
Community service	59,059	221,909	19,044	-	300,012
Other services	12,678	-	123,306	615,324	751,308
Interdistrict transfers to locals	461,015	92,300,153	614,044	-	93,375,212
Capital outlay	35,570	21,821	2,264,978	2,553,514	4,875,883
TOTAL EXPENDITURES	8,508,853	148,809,171	23,404,441	3,168,838	183,891,303
REVENUES OVER (UNDER) EXPENDITURES	(883,087)	1,776,282	(6,741,003)	(565,326)	(6,413,134)
OTHER FINANCING SOURCES (USES)					
Transfers in	1,576,588	-	3,082,536	22,286	4,681,410
Transfers out	(1,595,038)	(2,110,614)	(920,508)	(55,250)	(4,681,410)
TOTAL OTHER FINANCING SOURCES (USES)	(18,450)	(2,110,614)	2,162,028	(32,964)	-
NET CHANGES IN FUND BALANCES	(901,537)	(334,332)	(4,578,975)	(598,290)	(6,413,134)
FUND BALANCES, BEGINNING OF YEAR	3,330,171	2,265,247	10,983,386	9,934,769	26,513,573
FUND BALANCES, END OF YEAR	\$ 2,428,634	\$ 1,930,915	\$ 6,404,411	\$ 9,336,479	\$ 20,100,439

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ (6,413,134)
--	----------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	2,858,399
Deduct - depreciation expense	(1,698,775)
Deduct - net disposal of capital assets	(304,730)

Revenues in the statement of activities that provide economic resources regardless of the date of receipt are recorded when measurable and available in the fund statements

Deduct - change in long-term receivable	(39,294)
---	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.

Add - decrease in the accrual for compensated absences	156,583
Deduct - increase in accrued interest payable on bonds	(12,233)

Change in net assets of governmental activities	<u><u>\$ (5,453,184)</u></u>
---	------------------------------

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL GENERAL AND MAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL FUND			
	BUDGET AMOUNTS			VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Local sources	\$ 3,736,779	\$ 3,648,513	\$ 3,359,216	\$ (289,297)
State sources	3,047,277	3,044,646	2,918,689	(125,957)
Federal sources	784,220	922,840	727,231	(195,609)
Interdistrict	27,500	385,913	620,630	234,717
TOTAL REVENUES	7,595,776	8,001,912	7,625,766	(376,146)
EXPENDITURES				
Current				
Instruction				
Basic programs	50,124	41,353	35,546	5,807
Adult continuing education	-	-	-	-
Student instruction and added needs	-	-	-	-
Supporting services				
Pupil services	1,034,273	1,577,633	1,644,515	(66,882)
Instructional staff	2,623,542	3,032,407	2,363,015	669,392
General administration	544,460	577,933	537,911	40,022
School administration	-	-	-	-
Business services	1,349,872	1,518,392	1,401,206	117,186
Operation and maintenance	464,079	439,041	403,779	35,262
Transportation services	-	-	-	-
Central services	2,122,062	1,774,209	1,554,559	219,650
Other services	1,500	14,800	12,678	2,122
Community service	127,464	83,495	59,059	24,436
Interdistrict transfers to locals	367,225	464,376	461,015	3,361
Capital outlay	96,800	106,800	35,570	71,230
TOTAL EXPENDITURES	8,781,401	9,630,439	8,508,853	1,121,586
REVENUES OVER (UNDER) EXPENDITURES	(1,185,625)	(1,628,527)	(883,087)	745,440
OTHER FINANCING SOURCES (USES)				
Transfers in	1,420,933	1,537,576	1,576,588	39,012
Transfers out	(1,313,951)	(1,668,780)	(1,595,038)	73,742
TOTAL OTHER FINANCING SOURCES (USES)	106,982	(131,204)	(18,450)	112,754
NET CHANGES IN FUND BALANCES	(1,078,643)	(1,759,731)	(901,537)	858,194
FUND BALANCES, BEGINNING OF YEAR	3,330,171	3,330,171	3,330,171	-
FUND BALANCES, END OF YEAR	\$ 2,251,528	\$ 1,570,440	\$ 2,428,634	\$ 858,194

The accompanying notes are an integral part of these financial statements.

SPECIAL EDUCATION FUND				VOCATIONAL EDUCATION			
BUDGET AMOUNTS		ACTUAL	VARIANCE POSITIVE (NEGATIVE)	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE POSITIVE (NEGATIVE)
ORIGINAL	FINAL			ORIGINAL	FINAL		
\$ 69,085,000	\$ 73,414,809	\$ 73,553,231	\$ 138,422	\$ 15,321,200	\$ 14,426,800	\$ 14,237,970	\$ (188,830)
9,638,456	12,533,955	17,753,563	5,219,608	835,000	1,263,255	1,049,466	(213,789)
23,327,299	26,093,742	23,420,394	(2,673,348)	1,190,000	1,398,256	1,376,002	(22,254)
6,180,765	41,538,785	35,858,265	(5,680,520)	-	-	-	-
108,231,520	153,581,291	150,585,453	(2,995,838)	17,346,200	17,088,311	16,663,438	(424,873)
-	-	-	-	42,364	42,364	22,166	20,198
-	-	-	-	1,195,729	1,148,280	553,581	594,699
-	-	-	-	10,713,200	9,860,407	9,516,749	343,658
1,896,653	38,262,816	37,347,117	915,699	2,321,782	2,341,276	2,179,341	161,935
963,137	984,619	869,882	114,737	2,550,867	2,636,731	2,431,189	205,542
147,500	279,750	272,552	7,198	242,057	260,699	227,017	33,682
-	-	-	-	1,913,087	1,742,788	1,621,623	121,165
628,764	498,512	300,499	198,013	88,900	186,477	133,825	52,652
365,343	343,536	339,463	4,073	3,413,168	3,206,395	2,991,031	215,364
12,486,883	16,306,252	16,841,711	(535,459)	52,700	94,469	85,019	9,450
286,184	302,819	294,064	8,755	715,650	702,985	621,528	81,457
-	-	-	-	96,500	139,500	123,306	16,194
244,615	246,242	221,909	24,333	22,373	22,373	19,044	3,329
88,584,646	93,439,338	92,300,153	1,139,185	649,338	666,088	614,044	52,044
219,000	219,000	21,821	197,179	2,188,120	2,758,900	2,264,978	493,922
105,822,725	150,882,884	148,809,171	2,073,713	26,205,835	25,809,732	23,404,441	2,405,291
2,408,795	2,698,407	1,776,282	(922,125)	(8,859,635)	(8,721,421)	(6,741,003)	1,980,418
-	-	-	-	3,105,094	3,242,464	3,082,536	(159,928)
(2,408,795)	(2,357,199)	(2,110,614)	246,585	(859,153)	(920,508)	(920,508)	-
(2,408,795)	(2,357,199)	(2,110,614)	246,585	2,245,941	2,321,956	2,162,028	(159,928)
-	341,208	(334,332)	(675,540)	(6,613,694)	(6,399,465)	(4,578,975)	1,820,490
2,265,247	2,265,247	2,265,247	-	10,983,386	10,983,386	10,983,386	-
\$ 2,265,247	\$ 2,606,455	\$ 1,930,915	\$ (675,540)	\$ 4,369,692	\$ 4,583,921	\$ 6,404,411	\$ 1,820,490

KENT INTERMEDIATE SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS

JUNE 30, 2005

	AGENCY FUND
ASSETS	
Cash and cash equivalents	\$ 174,967
Accounts receivable	<u>4,526</u>
TOTAL ASSETS	<u>\$ 179,493</u>
LIABILITIES	
Accounts payable	\$ 3,571
Due to other governmental units	<u>175,922</u>
TOTAL LIABILITIES	<u>\$ 179,493</u>

The accompanying notes are an integral part of these financial statements.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Kent Intermediate School District (the "District") was created by state law and is governed by a five-member Board of Education elected by member districts. The District has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from fiduciary activities which are utilized to account for the assets of other entities for which the District acts in an agency capacity. The District had no *business-type activities* during the year ended June 30, 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received within 60 days of year end, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special education fund* accounts for monies received from Federal, State and Local sources which are restricted to instruction and services related to providing special education.

The *vocational education fund* accounts for monies received from Federal, State and Local sources which are restricted to instruction and services related to providing vocational education.

Additionally, the District reports the following fund types:

The *special revenue fund* accounts for the accumulation and disbursement of resources which are restricted or earmarked for a specific purpose.

The *capital projects funds* account for accumulation and disbursement of resources for the acquisition or construction of capital assets.

The *debt service fund* accounts for accumulation and disbursement of resources for debt service on the Durant bonds which are payable only by state appropriation.

The *permanent fund* accounts for monies held in a perpetual trust, the earnings of which may be used for specified educational purposes.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

3. *Inventories and prepaid items*

Inventories, which consist of supplies and lots held for construction are valued at cost. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond the District's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Building renovations are capitalized if the cost is greater than \$50,000 per renovation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Equipment	5-15
Vehicles	5-10

5. *Employee benefits*

It is the District's policy to permit employees to accumulate earned but unpaid vacation, sick pay and termination benefits. All employee benefits are accrued when incurred in the government-wide financial statements.

6. *Long-term obligations*

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets adopted by the District are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets displayed in the financial statements consist of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted at the program level. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain local district comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except permanent funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2005. Expenditures may not exceed appropriations at the function level (the legal level of budgetary control). The appropriations resolutions are based on the projected expenditures budget of the District. Any amendment to the original budget must meet the requirements of Public Act 621.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,669,847	\$174,967	\$ 5,844,814
Investments	21,017,612	-	21,017,612
Total	<u>\$26,687,459</u>	<u>\$174,967</u>	<u>\$26,862,426</u>

These deposits are in five (5) financial institutions located in Michigan. State policy limits the School's investing options to financial institutions located in Michigan. All accounts are in the name of the School and a specific fund or common account. They are recorded in School records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan Bank	11/10/05	\$ 1,243,750	S&P AAA
Federal Home Loan Bank	11/29/05	497,500	S&P AAA
Federal Home Loan Bank	9/29/06	743,670	S&P AAA
Federal Home Loan Bank	11/20/06	169,750	S&P AAA
Federal Home Loan Bank	12/29/06	494,220	S&P AAA
Federal Home Loan Bank	10/12/07	98,688	S&P AAA
Federal National Mortgage Association	9/27/06	347,921	S&P AAA
Federal National Mortgage Association	3/30/06	497,345	S&P AAA
Huntington Money Market IV	N/A	148,327	Unrated
Huntington Premier Money Market	N/A	3,359,114	N/A
MILAF Plus Cash Management Fund	N/A	105	AAAm Moody's
Huntington Money Market Public Funds Account	N/A	3,358,598	N/A
Standard Federal Public Funds Money Market Account	N/A	1,040,493	A1P1
Bank One School Money Market Fund	N/A	1,839,758	AAA Moody's

The above investments do not include certificates of deposit, which are classified as investments for financial statement purposes as their original maturity date is greater than three months.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$24,936,321 of the District's bank balance of \$25,336,436 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. Of the above \$21,017,612 investments the District has a custodial credit risk exposure of \$21,017,612 because the related securities are uninsured, unregistered and held by the counterparty's trust department in street name.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

B. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 477,295	\$ -	\$ 2,555	\$ 474,740
Construction in progress	2,892,172	2,470,688	2,171,700	3,191,160
Total capital assets not being depreciated	3,369,467	2,470,688	2,174,255	3,665,900
Capital assets being depreciated:				
Buildings and structure	41,796,259	1,623,527	66,140	43,353,646
Furniture and equipment	8,209,489	907,878	382,710	8,734,657
Vehicles	828,850	2,276,265	2,440,853	664,262
Total capital assets being depreciated	50,834,598	4,807,670	2,889,703	52,752,565
Less accumulated depreciation for:				
Buildings and structure	14,825,934	1,106,760	6,614	15,926,080
Furniture and equipment	4,903,919	514,414	268,857	5,149,476
Vehicles	496,585	77,601	63,796	510,390
Total accumulated depreciation	20,226,438	1,698,775	339,267	21,585,946
Total capital assets being depreciated, net	30,608,160	3,108,895	2,550,436	31,166,619
Governmental activities capital assets, net	\$ 33,977,627	\$ 5,579,583	\$ 4,724,691	\$ 34,832,519

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Instruction	\$ 756,031
Supporting services	161,501
Unallocated depreciation	<u>781,243</u>

Total depreciation expense – governmental activities **\$1,698,775**

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

C. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2005, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
Major Governmental Funds		
General Fund	\$ 116,116	\$ 661,050
Special Education	-	426,809
Vocational Education	982,770	10,991
Nonmajor Governmental Funds	<u>47</u>	<u>83</u>
Total	<u>\$1,098,933</u>	<u>\$1,098,933</u>

Interfund balances represent short-term borrowings between funds for cash flow purposes.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The composition of transfers for the year ended June 30, 2005 is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General	\$1,576,588	\$1,595,038
Special Education	-	2,110,614
Vocational Education	3,082,536	920,508
Nonmajor Governmental Funds	<u>22,286</u>	<u>55,250</u>
Total	<u>\$4,681,410</u>	<u>\$4,681,410</u>

D. Excess of Expenditures over Appropriations in Budgetary Funds

During the year ended June 30, 2005, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Pupil Services	\$ 1,577,633	\$ 1,644,515	\$ 66,882
Special Education Fund			
Transportation Services	16,306,252	16,841,711	535,459

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

E. Operating Leases

The District leases equipment under noncancellable operating leases expiring through 2010. Total costs for such leases were \$246,332 for the current year. The future minimum lease payments for these leases are as follows:

<u>Years Ending June 30</u>	<u>Total</u>
2006	\$ 249,624
2007	249,624
2008	249,624
2009	249,624
2010	4,984
Total	<u>\$1,003,480</u>

F. Long-term liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance June 30, 2005</u>	<u>Due in One Year</u>
1998 School Improvement Revenue Bonds (Durant Settlement), \$509,250 issued, due in amounts ranging from \$27,053 through \$142,440 plus interest at 4.8% payable through 2013 (payable only by an annual State of Michigan appropriation to the District)	\$325,343	\$ -	\$ -	\$325,343	\$ -
Early retirement incentive	240,000		(150,000)	90,000	2,700
Compensated absences	162,694	-	(6,583)	156,111	33,611
Total long-term liabilities	<u>\$728,037</u>	<u>\$ -</u>	<u>\$(156,583)</u>	<u>\$571,454</u>	<u>\$ 36,311</u>

The State of Michigan has suspended payments on the Durant bonds for the years ended June 30, 2004 and 2005.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Compensated absences and the early retirement incentive are generally liquidated from the general, special education and vocational education funds.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 35,761	\$ 35,761
2007	142,440	26,311	168,751
2008	27,053	8,709	35,762
2009	28,341	7,421	35,762
2010	29,689	6,071	35,760
2011-2013	<u>97,820</u>	<u>9,460</u>	<u>107,280</u>
Totals	<u>\$325,343</u>	<u>\$93,733</u>	<u>\$419,076</u>

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the District carried insurance to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 or December 1 of the following year by the various governmental units within the District. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties within the District.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2005, 2004, and 2003 were \$6,392,351, \$2,646,962, and \$2,174,668, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded as part of the above pension contribution. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Contingencies

Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

E. Commitments

The District has active projects at year-end. The District's commitments under contracts at June 30, 2005 are as follows:

	<u>Remaining Commitment</u>
Kent Career Technical Center	\$ 5,100
Shared Driveway	304,300
Data Warehouse	<u>200,000</u>
Total	<u>\$509,400</u>

* * * * *

KENT INTERMEDIATE SCHOOL DISTRICT

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

ASSETS	SPECIAL REVENUE	CAPITAL PROJECTS		
	COOPERATIVE EDUCATION	GENERAL EDUCATION	SPECIAL EDUCATION	VOCATIONAL EDUCATION
Cash and cash equivalents	\$ 34,880	\$ 183,888	\$ 1,081,743	\$ 459,075
Investments	684,314	1,050,980	2,347,291	2,327,173
Receivables				
Interest	703	-	3,781	1,054
Accounts	1,289	-	-	-
Prepaid expenditures	-	-	-	1,200,000
Due from other governmental units	39,940	-	5,540	152,775
Due from other funds	47	-	-	-
TOTAL ASSETS	\$ 761,173	\$ 1,234,868	\$ 3,438,355	\$ 4,140,077
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,780	\$ 16,524	\$ -	\$ 64,846
Salaries payable	4,749	-	-	-
Due to other governmental units	-	-	97,292	-
Due to other funds	83	-	-	-
Deferred Revenue	14,997	-	-	152,775
TOTAL LIABILITIES	21,609	16,524	97,292	217,621
FUND BALANCES				
Reserved:				
Capital projects	-	1,218,344	3,305,509	2,722,456
Endowment	-	-	-	-
Prepaid items	-	-	-	1,200,000
Unreserved				
Designated for tax tribunals	-	-	35,554	-
Undesignated	739,564	-	-	-
TOTAL FUND BALANCES	739,564	1,218,344	3,341,063	3,922,456
TOTAL LIABILITIES AND FUND BALANCES	\$ 761,173	\$ 1,234,868	\$ 3,438,355	\$ 4,140,077

DEBT SERVICE DURANT	PERMANENT TRUST ROBERT SCUTT FUND	TOTAL
\$ -	\$ 115,052	\$ 1,874,638
-	-	6,409,758
-	-	5,538
-	-	1,289
-	-	1,200,000
367,755	-	566,010
-	-	47
<u>\$ 367,755</u>	<u>\$ 115,052</u>	<u>\$ 10,057,280</u>

\$ -	\$ -	\$ 83,150
-	-	4,749
-	-	97,292
-	-	83
367,755	-	535,527
<u>367,755</u>	<u>-</u>	<u>720,801</u>

-	-	7,246,309
-	112,083	112,083
-	-	1,200,000
-	-	35,554
-	2,969	742,533
<u>-</u>	<u>115,052</u>	<u>9,336,479</u>
<u>\$ 367,755</u>	<u>\$ 115,052</u>	<u>\$ 10,057,280</u>

KENT INTERMEDIATE SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE		CAPITAL PROJECTS	
	COOPERATIVE EDUCATION	GENERAL EDUCATION	SPECIAL EDUCATION	VOCATIONAL EDUCATION
REVENUES				
Local sources	\$ 21,992	\$ 26,083	\$ 1,923,876	\$ 72,740
State sources	218,857	-	16,467	50,925
Interdistrict sources	270,239	-	-	-
TOTAL REVENUES	511,088	26,083	1,940,343	123,665
EXPENDITURES				
Current				
Support services	608,721	-	6,103	-
Capital outlay	38,655	136,955	1,629,021	748,883
TOTAL EXPENDITURES	647,376	136,955	1,635,124	748,883
REVENUES OVER (UNDER) EXPENDITURES	(136,288)	(110,872)	305,219	(625,218)
OTHER FINANCING SOURCES (USES)				
Transfers in	22,286	-	-	-
Transfers out	(55,250)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(32,964)	-	-	-
NET CHANGES IN FUND BALANCES	(169,252)	(110,872)	305,219	(625,218)
FUND BALANCES, BEGINNING OF YEAR	908,816	1,329,216	3,035,844	4,547,674
FUND BALANCES, END OF YEAR	\$ 739,564	\$ 1,218,344	\$ 3,341,063	\$ 3,922,456

DEBT SERVICE DURANT	PERMANENT TRUST ROBERT SCUTT FUND	TOTAL
\$ -	\$ 2,333	\$ 2,047,024
-	-	286,249
-	-	270,239
-	2,333	2,603,512
-	500	615,324
-	-	2,553,514
-	500	3,168,838
-	1,833	(565,326)
-	-	22,286
-	-	(55,250)
-	-	(32,964)
-	1,833	(598,290)
	113,219	9,934,769
\$ -	\$ 115,052	\$ 9,336,479

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL COOPERATIVE EDUCATION FUND

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET			VARIANCE- POSITIVE (NEGATIVE)
	ORIGINAL	AMENDED	ACTUAL	
REVENUES				
Local sources	\$ 8,000	\$ 8,000	\$ 21,992	\$ 13,992
State sources	141,112	218,857	218,857	-
Interdistrict sources	296,901	281,901	270,239	(11,662)
TOTAL REVENUES	446,013	508,758	511,088	2,330
EXPENDITURES				
Current				
Support services	546,673	664,596	608,721	55,875
Capital outlay	210,000	85,000	38,655	46,345
TOTAL EXPENDITURES	756,673	749,596	647,376	102,220
REVENUE OVER (UNDER) EXPENDITURES	(310,660)	(240,838)	(136,288)	104,550
OTHER FINANCING SOURCES (USES)				
Transfers in	19,599	22,286	22,286	-
Transfers out	(75,000)	(55,250)	(55,250)	-
TOTAL OTHER FINANCING SOURCES (USES)	(55,401)	(32,964)	(32,964)	-
NET CHANGES IN FUND BALANCES	(366,061)	(273,802)	(169,252)	104,550
FUND BALANCE, BEGINNING OF YEAR	908,816	908,816	908,816	-
FUND BALANCE, END OF YEAR	\$ 542,755	\$ 635,014	\$ 739,564	\$ 104,550

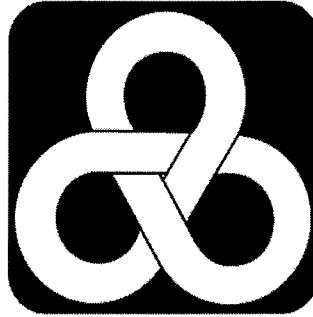
KENT INTERMEDIATE SCHOOL DISTRICT

AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2005

	BALANCE			BALANCE	
	JUNE 30, 2004	ADDITIONS	DEDUCTIONS	JUNE 30, 2005	
<hr/>					
ASSETS					
Cash and cash equivalents	\$ 213,782	\$ 1,244,254	\$ 1,283,069	\$	174,967
Accounts receivable	7,822	63,660	66,956		4,526
Due from other governments	12,979	-	12,979		-
<hr/>					
TOTAL ASSETS	\$ 234,583	\$ 1,307,914	\$ 1,363,004	\$	179,493
<hr/>					
LIABILITIES					
Accounts payable	\$ 10,861	\$ 175,077	\$ 182,367	\$	3,571
Due to other governmental units	223,722	140,413	188,213		175,922
Due to other funds	-	1,278,321	1,278,321		-
<hr/>					
TOTAL LIABILITIES	\$ 234,583	\$ 1,593,811	\$ 1,648,901	\$	179,493
<hr/>					



KENT INTERMEDIATE SCHOOL DISTRICT

SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2005

KENT INTERMEDIATE SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	2-3
Schedule of Expenditures of Federal Awards	4-5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Subrecipient Expenditures of Federal Awards	7-16
Schedule of Findings and Questioned Costs	17-18



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 4, 2005

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 4, 2005

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

Compliance

We have audited the compliance of Kent Intermediate School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Kent Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kent Intermediate School District's management. Our responsibility is to express an opinion on Kent Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kent Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kent Intermediate School District's compliance with those requirements.

In our opinion, Kent Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Kent Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kent Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kent Intermediate School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Kent Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards and schedule of subrecipient expenditures of federal awards are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2004	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2005
CLUSTERS:								
U.S. DEPARTMENT OF EDUCATION								
Passed through the Michigan Department of Education:								
Special Education Cluster:								
IDEA Flow Through/State Initiated Department:								
Flow Through 030450-0203C	84.027	\$ 8,064	\$ 8,064	\$ 5,038	\$ -	\$ 5,038	\$ -	\$ -
Flow Through 030450-0304	84.027	18,065,048	18,038,015	5,763,725	-	5,790,758	27,033	-
Flow Through 040450-0405	84.027	21,084,216	-	-	-	13,883,896	21,022,492	7,138,596
State Initiated/Competitive 040490-CB	84.027A	311,929	311,929	145,480	-	145,480	-	-
State Initiated/Competitive 050490-CB	84.027A	247,661	-	-	-	236,538	247,661	11,123
State Initiated/Competitive 050480-EOSD	84.027A	55,000	-	-	-	55,000	55,000	-
State Initiated/Competitive 040480-TMT	84.027A	29,549	29,549	20,740	-	20,740	-	-
State Initiated/Competitive 050480-TMT	84.027A	29,548	-	-	-	11,435	26,780	15,345
State initiated/Competitive 050490-TS	84.027A	115,000	-	-	-	115,000	115,000	-
Total IDEA Flow Through/State Initiated Department		39,946,015	18,387,557	5,934,983	-	20,263,885	21,493,966	7,165,064
Passed through Grand Valley State University:								
Kent Can	84.027A	35,110	-	-	-	35,110	32,462	(2,648)
Passed through Michigan Department of Education:								
IDEA Preschool:								
Preschool Incentive 040460/0304	84.173	960,420	960,420	295,431	-	295,431	-	-
Preschool Incentive 050460/0405	84.173	961,818	-	-	-	675,088	961,817	286,729
Total IDEA Preschool		1,922,238	960,420	295,431	-	970,519	961,817	286,729
Total Special Education Cluster		41,903,363	19,347,977	6,230,414	-	21,269,514	22,488,245	7,449,145
OTHER AWARDS:								
U.S. DEPARTMENT OF EDUCATION								
Passed through Michigan Department of Education:								
Infant and Toddler Early Intervention Program:								
Formula Grant 041340-190	84.181	617,439	617,439	188,719	-	188,719	-	-
Formula Grant 041340-190C	84.181	118,235	-	-	-	118,235	118,235	-
Formula Grant 051340-190	84.181	701,705	-	-	-	446,177	510,018	63,841
Passed through Clinton County RESA:								
Infant and Toddler Early Intervention Program:								
Professional Development-041320/290CSPD1	84.181	65,196	47,598	5,294	-	21,709	16,415	-
Total Infant and Toddler Early Intervention		1,502,575	665,037	194,013	-	774,840	644,668	63,841
Passed through Eaton Intermediate School District:								
Infant and Toddler Early Intervention Program:								
No Child Left Behind 032600	84.184C	8,038	7,893	7,893	-	7,893	-	-
Passed through the Michigan Department of Education:								
Title V & VI:								
Innovative Education Program 030250-0203	84.298	7,440	6,760	3,040	-	3,040	-	-
Innovative Education Program 030250-0304	84.298	171,885	159,199	55,189	-	67,875	12,686	-
Innovative Education Program 040250-0304	84.298	12,930	-	-	-	5,639	10,035	4,396
Innovative Education Program 050250-0405	84.298	124,307	-	-	-	36,415	96,524	60,109
Total Title V & VI		316,562	165,959	58,229	-	112,969	119,245	64,505
Title I								
Regional Assistance Grants 041570/0405	84.010	40,000	-	-	-	40,000	40,000	-
Safe and Drug Free Schools and Communities:								
Drug Free Formula 042860/0304	84.186	217,113	217,113	57,030	-	57,030	-	-
Drug Free Formula 042860/0405	84.186	252,565	-	-	-	232,556	252,565	20,009
Drug Free Formula 052860/0405	84.186	405,816	-	-	-	252,834	295,644	42,810
Total Safe and Drug Free Schools and Communities		875,494	217,113	57,030	-	542,420	548,209	62,819
Carl D. Perkins Vocational and Applied Technology Education Act of 1990:								
Regional Allocation-Special Needs 053520/501213	84.048A	1,242,452	-	-	-	1,206,202	1,242,452	36,250
EDP Mini Grant Evaluation 033350/401513	84.048A	20,000	20,000	15,000	-	15,000	-	-
Total Carl D. Perkins Grant		1,262,452	20,000	15,000	-	1,221,202	1,242,452	36,250
Passed through Ferris State University								
Freedom to Learn								
ISD Support Services	84.318	24,000	-	-	-	-	2,417	2,417
Passed through Grand Rapids Community College								
Tech Prep Grant								
Tech Prep Grant	84.243	85,668	85,668	25,575	-	29,857	4,282	-
Tech Prep Grant	84.243	84,899	-	-	-	81,580	84,899	3,319
Total Tech Prep Grant		170,567	85,668	25,575	-	111,437	89,181	3,319
TOTAL U.S. DEPARTMENT OF EDUCATION		46,103,051	20,509,647	6,588,154	-	24,080,275	25,174,417	7,682,296

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2004	Adjustments and Transfers	Federal Funds/ Payments In- kind Received	Expenditures	Accrued or (Deferred) Revenue at June 30, 2005
U.S. DEPARTMENT OF LABOR								
Passed through ACSET								
Education Advisory Group	17.259	\$ 17,000	\$ 16,766	\$ 8,804	\$ -	\$ 8,804	\$ -	\$ -
Education Advisory Group	17.259	41,000	-	-	-	31,744	41,000	9,256
Total Education Advisory Group		58,000	16,766	8,804	-	40,548	41,000	9,256
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Unified Way:								
Literacy Grant	93.577	70,000	-	-	-	-	17,360	17,360
Passed through the Michigan Department of Education:								
Medicaid Outreach:								
Medicaid Outreach	93.778	1,264,755	124,615	(930,280)	-	633,074	30,706	(1,532,648)
School Based Medicaid 04-05	93.778	256,775	-	-	-	256,775	256,775	-
Total Medicaid Outreach		1,521,530	124,615	(930,280)	-	889,849	287,481	(1,532,648)
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		1,591,530	124,615	(930,280)	-	889,849	304,841	(1,515,288)
U.S. DEPARTMENT OF HOMELAND SECURITY								
Passed through Michigan State Police:								
Homeland Security Grant	97.067	4,400	-	-	-	3,369	3,369	-
Total Federal Financial Assistance		\$ 47,756,981	\$ 20,651,028	\$ 5,666,678	\$ -	\$ 25,014,041	\$ 25,523,627	\$ 6,176,264

KENT INTERMEDIATE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

Basis of Accounting

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the grants section auditors report (form R7120) in preparing the Schedule of Expenditures of Federal Awards. The Medicaid outreach funds which have been deferred at year end are subject to final allowable cost review (back casting). This balance will be recognized as revenue upon completion of the review process.

Reconciliation of Basic Financial Statements

Revenues from federal sources per the June 30, 2005 financial statements agrees with federal revenues from the June 30, 2005 Schedule of Expenditures of Federal Awards.

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
CLUSTERS:		
U.S. DEPARTMENT OF EDUCATION		
Passed through the Michigan Department of Education:		
Special Education Fund:		
IDEA Flow Through:		
Flow Through 040450-0304	84.027	
Passed through to:		
Byron Center Public Schools		\$ 225,896
Caledonia Community Schools		294,287
Cedar Springs Public Schools		162,036
Chandler Woods Charter Academy		14,601
Comstock Park Public Schools		199,633
Cross Creek Charter Academy		18,458
East Grand Rapids Public Schools		241,042
Excel Charter Academy		12,500
Forest Hills Public Schools		548,256
Godfrey-Lee Public Schools		100,358
Godwin Heights Public Schools		167,669
Grand Rapids Public Schools		1,603,139
Grandville Public Schools		310,208
Horizons High School		7,202
Kelloggsville Public Schools		102,694
Kent City Community Schools		87,551
Kentwood Public Schools		544,383
Knapp Charter Academy		20,988
Learning Center Academy		4,572
Lowell Area Schools		184,497
New Branches Charter Academy		1,005
Northview Public Schools		206,084
Ridge Park Academy		23,787
Rockford Public Schools		372,342
Sparta Area Schools		151,917
Thornapple Kellogg Public Schools		114,936
Vanguard Academy		24,362
Vista Charter Academy		20,295
Walker Charter Academy		11,718
West Michigan Academy of Environmental Science		21,855
Wyoming Public Schools		366,630
Total Flow Through 040450-0304 :		6,164,901
Flow Through 050450-0405:	84.027	
Passed through to:		
Abney Academy		17,782
Byron Center Public Schools		363,359
Caledonia Community Schools		416,128
Cedar Springs Public Schools		343,138
Chandler Woods		54,146

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Flow Through 050450-0405 (Continued):	84.027	
Comstock Park Public Schools		\$ 355,646
Creative Technologies		36,702
Cross Creek		57,116
East Grand Rapids Public Schools		259,132
Excel Charter Academy		65,754
Forest Hills Public Schools		858,031
Gateway Middle/High School		16,617
Godfrey-Lee Public Schools		164,386
Godwin Heights Public Schools		224,706
Grand Rapids Child Discovery Center		13,977
Grand Rapids Public Schools		5,457,455
Grandville Public Schools		287,211
Horizons High School		14,448
Kellogsville Public Schools		199,074
Kenowa Hills Public Schools		416,610
Kent City Community Schools		145,737
Kentwood Public Schools		936,277
Knapp Charter Academy		65,765
Learning Center Academy		19,701
Lowell Area Schools		411,169
New Branches School		12,552
Northview Public Schools		406,661
Ridge Park Academy		64,821
Rockford Public Schools		595,001
Sparta Area Schools		455,018
Thornapple-Kellog Schools		218,453
Vanguard Academy		56,347
Vista Academy		65,484
Walker Charter Academy		52,472
West Michigan Academy of Environmental Science		49,850
Wyoming Public Schools		676,606
Total Flow Through 050450-0405		13,853,332
Flow Through 040490-CB:	84.027A	
Passed through to:		
Grand Rapids Public Schools		26,892
Kentwood Public Schools		4,125
Lowell Area Schools		4,991
Wyoming Public Schools		4,395
Total Flow Through 040490-CB		40,403
Flow Through 050490-CB:	84.027A	
Passed through to:		
Forest Hills Public Schools		6,142
Grand Rapids Public Schools		20,131
Kentwood Public Schools		5,566
Wyoming Public Schools		3,467
Total Flow Through 050490-CB		35,306

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
State Initiated/Competitive 040480-TMT:	84.027A	
Passed through to:		
Byron Center Public Schools		\$ 427
Caledonia Community Schools		422
Cedar Springs Public Schools		563
East Grand Rapids Public Schools		512
Godwin Heights Public Schools		295
Grand Rapids Public Schools		8,413
Ionia ISD		3,053
Kent City Community Schools		300
Kentwood Public Schools		461
Montcalm ISD		3,553
Rockford Public Schools		371
Sparta Area Schools		63
Thornapple Kellogg Public Schools		394
Total State Initiated/Competitive 040480-TMT		<u>18,827</u>
State Initiated/Competitive 050480-TMT:	84.027A	
Passed through to:		
Cedar Springs Public Schools		414
Comstock Park Public Schools		556
Forest Hills Public Schools		1,612
Godfrey-Lee Public Schools		325
Godwin Heights Public Schools		240
Kelloggsville Public Schools		349
Kentwood Public Schools		880
Montcalm ISD		3,245
Northview Public Schools		459
Rockford Public Schools		1,098
Sparta Area Schools		708
Thornapple Kellogg Public Schools		427
Total State Initiated/Competitive 050480-TMT		<u>10,313</u>
Total IDEA Flow Through/State Initiated Department		<u>20,123,082</u>
IDEA Preschool:		
Preschool Incentive 040460-0304:	84.173	
Passed through to:		
Byron Center Public Schools		12,204
Caledonia Community Schools		10,595
Cedar Springs Public Schools		7,560
Chandler Woods Academy		1,242
Comstock Park Public Schools		9,630
East Grand Rapids Public Schools		9,124
Forest Hills Public Schools		23,187
Godwin Heights Public Schools		11,999
Grand Rapids Public Schools		90,639
Grandville Public Schools		18,485

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
IDEA Preschool (Continued):		
Preschool Incentive 040460-0304 (Continued):	84.173	
Kelloggsville Public Schools		\$ 5,844
Kent City Community Schools		3,327
Kentwood Public Schools		15,888
Knapp Charter Academy		478
Lowell Area Schools		6,255
Northview Public Schools		11,840
Rockford Public Schools		23,505
Thornapple Kellogg Public Schools		6,068
Vanguard Charter Academy		1,016
Vista Charter Academy		382
Walker Charter Academy		791
Wyoming Public Schools		23,048
Total Preschool Incentive 040460-0304		293,107
Preschool Incentive 050460-0405:	84.173	
Passed through to:		
Byron Center Public Schools		15,156
Caledonia Community Schools		13,531
Cedar Springs Public Schools		15,141
Chandler Woods Charter Academy		1,981
Comstock Park Public Schools		20,711
Cross Creek Charter Academy		2,403
East Grand Rapids Public Schools		7,931
Excel Charter Academy		476
Forest Hills Public Schools		34,883
Godfrey-Lee Public Schools		7,054
Godwin Heights Public Schools		16,893
Grand Rapids Public Schools		280,219
Grand Rapids Child Discovery Center		1,905
Grandville Public Schools		11,570
Kelloggsville Public Schools		13,343
Kenowa Hills Public Schools		14,372
Kent City Community Schools		4,941
Kentwood Public Schools		37,557
Knapp Charter Academy		1,345
Learning Center		476
Lowell Area Schools		34,759
New Branches		952
Northview Public Schools		17,895
Ridge Park Charter Academy		1,000
Rockford Public Schools		38,058

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Preschool Incentive 050460-0405 (Continued):	84.173	
Passed through to:		
Sparta Area Schools		\$ 25,712
Thornapple Kellogg Public Schools		9,875
Vanguard Charter Academy		476
Vista Charter Academy		1,457
Walker Charter Academy		1,179
West Michigan Academy of Environmental Science		1,905
Wyoming Public Schools		31,969
Total Preschool Incentive 050460-0405		667,125
Total IDEA Preschool		960,232
Total Special Education Cluster		21,083,314

OTHER AWARDS:

U.S. DEPARTMENT OF EDUCATION

Passed through the Michigan Department of Education:

General Education Fund

Title VI:

Innovative Education Program 040250-0304:

Passed through to:

Ada Christian	107
Adams Street Christian School	682
Assumption BVM	(306)
Byron Center Christian School	38
Calvin Christian High School	371
Calvin Christian Junior High School	(24)
Calvin Christian Elementary School	36
Catholic Central High School	323
Creston-Mayfield Christian School	(217)
Cutlerville Christian School	117
Grand Rapids Christian High School	212
Grandville Christian School	400
Holy Spirit School	8
Holy Trinity Catholic School	1,171
Holy Trinity Evangelical Lutheran School	2

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Innovative Education Program 040250-0304 (Continued):	84.298	
Passed through to:		
Immanual St James		\$ 13
Kelloggville Christian School		35
Millbrook Christian School		64
Northpointe Christian Elementary School		801
Northpointe Christian Middle/High School		42
Oakdale Christian School		(245)
Our Savior Lutheran School		553
Plymouth Christian High School		32
Plymouth Christian Elementary School		36
Rockford Christian School		479
St Alphonsus Catholic School		34
St Andrew Catholic School		(139)
St Anthony Catholic School		964
St Francis Xavier Catholic School		(92)
St Isadore Catholic School		6
St John Vianney Catholic School		185
St Jude Catholic School		(15)
St Patrick Catholic School		35
St Paul the Apostle Catholic School		13
St Stephen Catholic School		475
St Thomas Catholic School		44
South Christian High School		194
Sylvan Christian School		274
Trinity Lutheran School		21
West Catholic High School		100
West Side Christian		83
Total Innovative Education Program 040250-0304		6,912
Innovative Education Program 050250-0405:	84.298	
Passed through to:		
Ada Christian School		1,987
Adams Christian School		406
Blessed Sacrament School		494
Byron Center Christian School		1,398
Calvin Christian Elementary School		763
Calvin Christian High School		1,549
Calvin Christian Junior High School		684
Catholic Central High School		2,199
Creston-Mayfield Christian School		938
Crestview Baptist Academy		
Cutlerville Christian School		1,324
Evergreen Christian Elementary School		249
Grand Rapids Christian High School		3,695
Grandville Christian School		1,307
Holy Spirit School		1,543

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Innovative Education Program 050250-0405 (Continued):	84.298	
Passed through to:		
Holy Trinity Catholic School		\$ 595
Holy Trinity Evangelical Lutheran		214
Immanuel St. James Lutheran School		233
Kelloggsville Christian High School		764
Lake Michigan Academy		157
Millbrook Christian School		1,262
Northpointe Christian Middle/High School		1,831
Oakdale Christian School		944
Our Savior Lutheran School		384
Plymouth Christian High School		775
Plymouth Christian Elementary School		834
St. Alphonsus School		741
St. Andrew School		534
St. Isidore School		270
St. John Vianney		1,620
St. Jude School		737
St. Patrick		1,261
St. Paul the Apostle		792
St. Peter & Paul School		304
St. Thomas School		1,042
South Christian High School		2,982
Sylvan Christian School		1,320
Trinity Lutheran School		106
West Catholic High School		2,249
West Side Christian School		1,660
Zion Christian School		500
Total Innovative Education Program 050250-0405		42,647
Total Title VI		49,559

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Safe and Drug Free Schools and Communities:		
Drug Free Formula 042860/0405	84.186	
Passed through to:		
Belding Area Schools		\$ 8,638
Byron Center Public Schools		1,419
Caledonia Community Schools		1,200
Carson City Crystal		2,200
Cedar Springs Public Schools		1,200
Central Montcalm Public Schools		3,700
Comstock Park Public Schools		1,200
East Grand Rapids Public Schools		1,200
Forest Hills Public Schools		2,153
Gateway		1,200
Godfrey Lee Public Schools		1,200
Grandville Public Schools		1,200
Greenville Public Schools		11,272
Ionia County ISD		10,619
Ionia Public Schools		1,200
Kenowa Hills Public Schools		3,704
Kent City Community Schools		1,518
Kentwood Public Schools		6,200
Lakeview Community Schools		1,200
Lakewood Public Schools		5,716
Learning Center Academy		150
Lowell Area Schools		1,200
Montabella Community Schools		5,648
Montcalm ISD		1,200
New Branches		150
Northview Public Schools		1,434
Palo Community School		1,200
Portland Public Schools		1,200
Rockford Public Schools		1,200
Sparta Area Schools		1,200
Saranac Community Schools		1,200
Tri-County Area Schools		1,200
Vestaburg Community Schools		1,200
West Michigan Academy of Environmental Science		1,200
Total Drug Free Formula 042860/0405		<u>87,321</u>
Safe and Drug Free Schools and Communities:		
Drug Free Formula 052860/0405	84.186	
Passed through to:		
Belding Area Schools		6,077
Byron Center Public Schools		1,607
Caledonia Community Schools		7,131
Carson City Crystal		3,393
Cedar Springs Public Schools		9,961

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
Drug Free Formula 052860/0405 (Continued):	84.186	
Passed through to:		
Comstock Park Public Schools		\$ 6,734
East Grand Rapids Public Schools		6,107
Forest Hills Public Schools		4,988
Gateway		991
Godfrey Lee Public Schools		5,114
Grandville Public Schools		13,603
Greenville Public Schools		6,245
Ionia County ISD		747
Ionia Public Schools		14,732
Kenowa Hills Public Schools		4,081
Kent City Community Schools		2,812
Kentwood Public Schools		23,599
Lakeview Community Schools		8,149
Lakewood Public Schools		8,471
Learning Center Academy		50
Lowell Area Schools		9,571
Montabella Community Schools		2,363
Montcalm ISD		448
New Branches		491
Northview Public Schools		8,437
Palo Community School		735
Portland Public Schools		3,043
Rockford Public Schools		16,530
Sparta Area Schools		1,602
Saranac Community Schools		1,500
Tri-County Area Schools		4,768
Vestaburg Community Schools		3,326
West Michigan Academy of Environmental Science		1,636
Total Drug Free Formula 052860/0405		<u>189,042</u>
Total General Education Fund		<u>325,922</u>
Vocational Education Fund:		
Carl D. Perkins Vocational and Applied Technology		
Education Act of 1990:		
Regional Allocation-Special Needs 053520/501213	84.048A	
Passed through to:		
Allegan County ISD		<u>149,088</u>
Total U.S. Department of Education		<u>21,558,324</u>

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF SUBRECIPIENT EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Current Year Cash Transferred to Subrecipient
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
US Department of Health and Human Services- Passed through the Michigan Department of Education Special Education Fund:		
School Based Medicaid 03-04:	93.778	
Passed through to:		
Byron Center Public Schools		\$ 3,175
Caledonia Community Schools		2,207
Cedar Springs Public Schools		12,884
Comstock Park Public Schools		4,328
East Grand Rapids Public Schools		1,438
Forest Hills Public Schools		4,699
Godfrey-Lee Public Schools		860
Godwin Heights Public Schools		307
Grand Rapids Public Schools		93,357
Grandville Public Schools		17,031
Kelloggsville Public Schools		3,160
Kenowa Hills Public Schools		13,952
Kent City Community Schools		4,972
Kentwood Public Schools		10,548
Lowell Area Schools		10,472
Northview Public Schools		2,735
Rockford Public Schools		2,516
Sparta Area Schools		12,461
Thornapple Kellogg Public Schools		2,452
Wyoming Public Schools		785
Total School Based Medicaid 03-04		<u>204,339</u>
School Based Medicaid 04-05:		
Passed through to:		
Byron Center Public Schools		2,133
Caledonia Community Schools		2,083
Cedar Springs Public Schools		5,708
Comstock Park Public Schools		2,675
East Grand Rapids Public Schools		1,107
Forest Hills Public Schools		4,331
Godfrey-Lee Public Schools		4,360
Godwin Heights Public Schools		5,427
Grand Rapids Public Schools		149,496
Grandville Public Schools		5,890
Kelloggsville Public Schools		2,354
Kenowa Hills Public Schools		4,496
Kent City Community Schools		2,956
Kentwood Public Schools		5,843
Lowell Area Schools		3,083
Northview Public Schools		3,966
Rockford Public Schools		1,957
Sparta Area Schools		5,045
Thornapple Kellogg Public Schools		1,534
Wyoming Public Schools		11,066
Total School Based Medicaid 04-05		<u>225,510</u>
Total Special Education		<u>429,849</u>
Total Federal Financial Assistance Provided to Subrecipients		<u>\$ 21,988,173</u>

KENT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unqualified on financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified not
considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified not
considered to be material weaknesses? _____ yes X none reported

Type of auditor’s report issued on compliance
for major programs: *Unqualified*

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)? _____ yes X no

Identification of Major Programs

CFDA Number(s)

Name of Federal Program or Cluster

Cluster	
84.027	Special Education Programs
84.173	Preschool Programs

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 765,000

Auditee qualified as low-risk auditee? X yes _____ no

KENT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 4, 2005

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

In planning and performing our audit of the financial statements of Kent Intermediate School District for the year ended June 30, 2005, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following paragraphs summarize our comments and suggestions regarding those matters. This letter does not affect our report dated October 4, 2005 on the financial statements of Kent Intermediate School District.

SEGREGATION OF DUTIES

During our audit we noted several opportunities for the District to strengthen internal control by segregating accounting-related duties between various employees. We noticed that the payroll clerks compile and process payroll data, receive the payroll checks, and distribute the checks to employees. This creates an opportunity for errors or misappropriation to go unnoticed. Our recommendation is that an employee unrelated to the payroll function receive and distributes the payroll checks. Any unclaimed checks should be returned to a finance supervisor for safekeeping until the employee is able to retrieve it.

Cash is inherently risky; therefore appropriate controls should be implemented over the collection process. We noted that one employee is opening mail, compiling checks, making journal entries, and submitting the deposit to the bank. This creates an opportunity for errors or misappropriation to go unnoticed. Strengthening this control would be both simple and valuable to the District. We recommend that a different employee open the mail and make a listing of monetary receipts. The list would include check number, amount, and payee. A copy of this listing would then be forwarded, along with the cash and checks, to the accounts receivable clerk for processing. The original listing total should be agreed to the accounting system records and bank deposit amounts by an independent business office staff.

EMPLOYEE EXPENSE REIMBURSEMENT POLICY

During our audit we noted that employee expense reimbursement requests and credit card invoices had been submitted and approved for payment without sufficient supporting documentation for all transactions. To maintain appropriate internal controls the District's policy requiring original, itemized receipts prior to any reimbursement, should be followed.

TIMELY RECONCILIATION OF BANK STATEMENTS

Due to timing differences between when a check or deposit leaves the District and when it is processed at the bank, an organization's general ledger cash/deposit account balances often do not agree to the related bank statements. To account for these differences, accounting staff prepare reconciliations that document any reconciling items. The timely preparation of these reconciliations is essential to maintain appropriate internal controls. During our audit we noted that some of the bank reconciliations had not been prepared in a timely manner. We suggest a review of procedures and making changes as necessary to assure a timely reconciliation of each account balance.

SUPERVISORY ROLES

During our audit we noted that supervisors have given their purchase requisition approval codes to their secretaries. When approval is needed for a purchase requisition within the accounting system, the secretary may be asked to enter the approval code on behalf of the supervisor. We suggest that approvals be made by authorized staff and/or that policies be changed to allow for purchase requisition approval as noted above.

DOCUMENTATION OF CONTRACT COMPLIANCE

During our audit we noted through inquiry that consulting days allowed under the various contracts are not always appropriately documented. To assure that contract terms are complied with, we suggest that policies be put in place to assure that time allowed for various activities be properly documented.

MILEAGE REIMBURSEMENT FROM HOME TO BOARD MEETINGS

During our audit we noted that the District was compensating board members for mileage from home to various board meetings. We suggest that the District review the Michigan Department of Treasury guidance on these payments to assure that they are allowable costs under state law.

CREDIT CARD PURCHASES

During our audit we noted credit card expenses in which personal items were purchased on the district's credit card, then subsequently reimbursed to the District. According to the Michigan Department of Treasury, credit cards may be used only for the purchase of goods or services for the official business of the district. We suggest that the District not allow personal purchases on the district credit cards.

Rehmann Lohman



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 4, 2005

Board of Education
Kent Intermediate School District
Grand Rapids, Michigan

We have audited the financial statements of *Kent Intermediate School District* for the year ended June 30, 2005, and have issued our report thereon dated October 4, 2005. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Generally Accepted Auditing Standards, Government Auditing Standards, and OMB Circular A-133

As stated in our engagement letter dated June 30, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kent Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kent Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kent Intermediate School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kent Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kent Intermediate School District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kent Intermediate School District are described in Note 1 to the basic financial statements. We noted no transactions entered into by Kent Intermediate School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Management's estimates of the useful lives of depreciable fixed assets are based on the length of time it is believed that those assets will provide economic benefits in the future. We evaluated the key factors and assumptions to develop the estimated useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's allocation of costs between funding sources.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Kent Intermediate School District financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Kent Intermediate School District, either individually or in the aggregate, indicate matters that could have a significant effect on the Kent Intermediate School District financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board Members and management of the Kent Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is positioned to the right of the "Very truly yours," text.